

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

R. BRUCE JOSTEN
EXECUTIVE VICE PRESIDENT
Government Affairs

1615 H STREET, N.W.
WASHINGTON, D.C. 20062-2000
202/463-5310

March 19, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
United States House of Representatives
Washington, DC 20515

The Honorable Rick Boucher
Chairman
Subcommittee on Energy and Air Quality
United States House of Representatives
Washington, DC 20515

Dear Chairmen Dingell and Boucher:

The U.S. Chamber of Commerce, the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region, is pleased to provide you with its response to the climate change questions you raised in your February 27, 2007, letter. I am the Chamber's Executive Vice President for Government Affairs. Because I am responsible for legislative matters, the Chamber's President and Chief Executive Officer, Thomas J. Donohue, asked that I respond on the Chamber's behalf. Your questions are summarized below; they are addressed in the order set forth in your letter.

Question 1: Which issues should be addressed in the Committee's legislation, how should they be resolved, and what is a recommended timetable for Congressional consideration and enactment of those issues?

The Chamber encourages adherence to the following six core principles as a comprehensive structure to manage climate change in a way that recognizes that governmental action should progress in a manner that protects our environment, quality of life, and national security:

- (1) Preservation of American jobs and the competitiveness of U.S. industry;
- (2) Promotion of the accelerated development and deployment of greenhouse gas reduction technology;
- (3) Reduction of barriers to the development of climate-friendly energy sources;
- (4) Maximum flexibility;
- (5) International, economy-wide solution with minimal impact on industry and regional economies, which includes developing nations; and
- (6) Promotion of energy conservation and efficiency.

The purpose of establishing these six core principles is to facilitate the placement of beneficial energy technologies in the U.S. and throughout the world where they can have the greatest impact.

Competitiveness

The Chamber's first core principle suggests that any new climate change legislation must preserve American jobs and the competitiveness of U.S. industry. Imposing restrictions on greenhouse gas emitters will encourage American companies to shift jobs overseas, where goods can be produced more cheaply and where emissions controls are not as strict. If not done properly, climate change legislation could result in the "de-industrialization of America" and, ultimately, a lack of affordable and available energy.

Technology

The Chamber's second core principle suggests that Congress's climate change legislation promote the accelerated development, demonstration and cost-effective deployment of climate-friendly technologies to reduce, avoid or sequester greenhouse gas emissions. Although some of these technologies currently exist, they are not cost-effective. Current emissions control technologies are not cheap enough for all businesses to utilize under their respective business models. Larger businesses can arguably afford the high cost of this technology while still turning a profit, but small and mid-sized businesses cannot. Congress should provide comprehensive research and development (R&D) incentives to stimulate technological innovation. Without these incentives, nationwide implementation of climate change legislation will be impossible, and the United States will lose primacy in intellectual property ownership of these innovative technologies.

Reduction of barriers

The Chamber's third core principle suggests that any climate change legislation address barriers to the development, financing, regulation, storage and use of domestic climate-friendly fuel sources. This includes expanded R&D of alternative energy sources such as clean coal, natural gas, nuclear energy, wind, hydropower, and biofuels. This country's energy goals will be met only by a commitment to all types of available energy sources. Congress must be pragmatic about its energy strategy, and any legislation should be technology-neutral so that Congress avoids picking technology winners and losers.

Maximum flexibility

The Chamber's fourth core principle suggests that Congress strive for maximum flexibility in achieving its climate change goals. It is apparent that Congress has not adequately considered the long-term economic consequences of any greenhouse gas mitigation scheme, whether it is a cap-and-trade system, carbon tax, or other method. Moreover, the prevailing law—established by the United States Court of Appeals for the District of Columbia Circuit in *Massachusetts v. EPA*, currently on review before the Supreme Court—states that the Clean Air

Act does not require EPA to regulate new vehicle greenhouse gas emissions.¹ Congress must take an extended view of how best to implement climate change legislation while adequately preserving national and energy security, competitiveness, environmental sustainability, and other important objectives facing this nation and the world.

International, economy-wide solution

The Chamber's fifth core principle suggests that any climate change program be an international, economy-wide solution with minimal impact on industry and regional economies, which includes developing nations. It is evident that emissions measured in American cities do not always originate within American borders. Climate change legislation must target the citizens and businesses of all nations, not simply domestic fossil fuel producers. If not, the effects on the U.S. economy, consumer prices and jobs could be disastrous. Without engaging developing nations, the controls imposed by climate change legislation would be punitive measures that would boost domestic costs of doing business in the world market while developing nations would continue to get a free ride.

Similarly, any Congressional climate change response must concurrently satisfy the world's growing demand for energy. It must consider every possible impact on the domestic and global economy, including, but not limited to: competition, development, quality of life, sustainability, and environmental health. That is why Congress must recognize the economy-wide and international dimensions of the challenge. Even if the United States successfully curbs its own greenhouse gas emissions, foreign emissions, particularly from developing nations, continue to increase. As such, any climate change program should work to facilitate the transfer of climate change technology to emerging economies. Such an effort will be the most cost-effective way to reduce the world's fastest-growing emission sources and begin to rein in the emissions of developing nations such as China and India.

Congress's solution must be multifaceted it must: (a) establish comprehensive R&D incentives to stimulate technology innovation; (b) include pragmatic, market-oriented measures that assure stability to the domestic economy; and (c) provide for the development of cheap, efficient technology so that all nations, not just the U.S., can contribute to the minimization of climate change. In the end, Congress should recognize that addressing climate change is a worldwide undertaking, and that reducing a ton of carbon emissions in a developing nation has the same benefit as reducing a ton of carbon emissions in the United States. Because many developing nations use antiquated technologies, it would be far more cost-effective, and greater carbon reductions would be achieved, if the U.S. and other industrialized nations could provide better technologies to developing nations.

Efficiency

The Chamber's sixth and final core principle suggests the promotion of energy efficiency across the board. Congress should realize that this country's dependence on fossil

¹ *Massachusetts v. EPA*, 415 F.3d 50, 58 (D.C. Cir. 2005), *cert. granted*, 126 S. Ct. 2960, 165 L. Ed. 2d 949 (U.S. June 26, 2006) (No. 05-1120).

fuels will continue for many years, even with the development of new alternative energy sources. Rather than penalizing the American public for using fossil fuels, any new climate change program should significantly promote energy efficiency. Although energy efficiency efforts have been ongoing for thirty years more can be done and should be done.

Adherence to the Chamber's six core principles will not be easy. Such an undertaking will require, among other things: long-term vision; stimulation of technological innovation; global facilitation of advanced technology deployments when and where it makes sense to do so; marketplace certainty; predictability, practicality, transparency, and avoidance of economic harm; incentives to remain competitive; security of investments in technology and alternative energy sources; improved ability to recover private sector R&D costs; protection of intellectual property; and global engagement by all nations. Implementation of these core principles will take time, and the Chamber urges Congress not to rush to produce legislation without carefully considering every possible impact that legislation will have on business and industry. Any legislation Congress passes must be "done right the first time," and must not further complicate the climate change picture.

Question 2: What is the U.S. Chamber's position with respect to various aspects of "cap-and-trade" regimes? [Summarized from 13 subparts.]

Broadly speaking, no matter what climate change legislation is ultimately considered, Congress must ensure that (1) the American economy is not harmed and (2) all nations are fully engaged. As previously mentioned, a ton of carbon is a ton of carbon, no matter where it originates and no matter how it is avoided or reduced. We should therefore be working to reduce greenhouse gas emissions the most *efficient* way, including reducing emissions in China, India and other developing nations. This approach helps the United States significantly: domestically, energy supplies remain stable; worldwide emissions are reduced; and China and other developing nations obtain more environmentally-friendly technology.

Until Congress fully and completely considers all possible emissions management regimes—not just cap-and-trade—no one single approach should be adopted without reservation. It is clear that other management regimes, such as a carbon tax or voluntary measures predicated on incentives that stimulate positive actions, have not yet been fully explored. The strengths and weaknesses of these other greenhouse gas reduction approaches should be examined alongside any analysis of cap-and-trade systems.

Congress has heretofore considered some potential economic impacts of "first step" legislation (e.g., some very modest initial restraint on some limited amount of carbon emissions) concerning cap-and-trade measures. However, Congress must develop a much greater understanding of possible impacts of subsequent steps in a cap-and-trade system. The long-term landscape must be understood. As domestic emissions controls become increasingly rigid and restrictive, economic consequences to American businesses become more severe and onerous. Developing nations have thus far signaled no interest in adopting any binding emissions reduction targets or embracing enforceable compliance mechanisms. As a result, a cap-and-trade

system runs the risk of imposing one-sided domestic obligations with potentially deleterious economic effects.

Question 3: How well are existing authorities permitting or compelling voluntary or mandatory actions functioning, and what lessons can be learned from existing voluntary or mandatory programs?

As the Chamber's core principles make clear, any legislation must provide a global solution. Existing authorities do not address this problem; the world has no experience in operating a mandatory *global* emissions management regime. Only regional initiatives, such as the European Trading System, exist. The mandatory domestic programs that do exist are best characterized as extremely complex, volatile in operation, and experimental in nature. Stakeholders regulated by mandatory emissions management regimes have no common view as to their practicality, and there are many as yet unaddressed concerns and misgivings. America's experience with existing programs hardly supports the establishment of a *new* emissions control program unless there is further careful consideration of benefits and consequences. With respect to purely voluntary management regimes aimed at managing emissions that can affect climate, such as the Asia-Pacific Partnership for Clean Development (APP), sufficient time has not elapsed to judge their efficacy. It should be noted, however, that APP has successfully engaged China and India with respect to the idea of technology transfer, which is the first step toward a truly international effort. Moreover, there are a number of projects between the American business community, China, and India focused on reducing greenhouse gas emissions.

Question 4: How should potential mandatory domestic requirements be integrated with future obligations that the United States may assume under the 1992 United Nations Framework Convention on Climate Change?

Again, as noted in the Chamber's core principles and in its response to Question 3, the climate change issue is both global and long-term in nature. There are fundamental issues that have not been addressed by Congress in the past, such as: affordable and available technology; extraterritorial emissions; and global and economy-wide acceptance of effective emission control regimes. Short-term, legally-binding emissions targets, such as those in place in Europe, have presented many challenges that have not been resolved. The fundamental differences in capabilities between developed and developing nations have not been adequately incorporated into dialogue about how to address climate change in the context of all the other manifold problems of the world, such as energy needs, security concerns, and how to improve progress toward sustainability and economic growth objectives. A long-term framework approach could be pursued under the umbrella of the United Nations Framework on Climate Change, and the following objectives could be established:

- Focus on holistic, long-term objectives for the mitigation of climate change risks, taking into account the many other important, interrelated issues that confront the world;
- Promote participation by all nations—the climate change issue is global in nature and cannot otherwise be effectively addressed;

- Provide practical market incentives to encourage efficient energy use, and avoid policy instruments (or lack thereof) that encourage excessive consumption of energy;
- Recognize and fully take into account the fact that, to some measure, adaptation must inescapably be pursued, and establish contingency measures predicated on anticipation of possible rates of climate change;
- Encourage greater use of existing, efficient energy technologies in developed and developing countries and establish pragmatic long-term approaches that encourage the global development and deployment of advanced energy technologies when and where it makes sense to do so. Especially, stimulate R&D aimed at creating innovative, affordable and reliable, low greenhouse gas technologies sooner, and eliminate or reduce regulatory barriers to the development and deployment of these technologies;
- Help those who need help: address climate change risks in the context of advancing cleaner development and access to energy in developing countries, taking into account all their other needs;
- Understand the health, safety and liability implications of the new technologies being promoted to reduce carbon emissions, e.g., liability for sequestration projects; and
- Continue scientific research to improve assessments of climate change risks and use the assessment results to inform policy responses;

Question 5: What, if any, steps have the Chamber's members or its individual members taken to reduce their greenhouse gas emissions and which of these have been voluntary in nature?

The Chamber has a diverse membership, ranging from small to very large global business enterprises that operate within one or many industrial sectors, domestically and internationally. As such, its members are affected by and obligated to follow a broad range of both voluntary and mandatory emissions management regimes. For example, the automotive industry has been carbon-restrained for nearly three decades, under the corporate average fuel economy standards. Many private sector companies participate in voluntary emissions management and other clean fuel programs, such as the FutureGen, Climate VISION, FreedomCAR, and Fuel Partnership programs. In addition, U.S. businesses that operate in Europe are obligated to comply with the mandatory requirements established within the European Union for the accounting, control, and mitigation of greenhouse gas emissions. Private sector companies participate in voluntary partnerships, such as APP, to stimulate the development and deployment of clean technologies in developing nations. Many businesses are also involved in the development of voluntary standards, such as through the American National Standards Institute, that are necessary for the growth of commodities markets.

In conclusion, the Chamber urges Congress to take the issues raised in this letter into account before drafting any new climate change legislation. In addressing climate change, Congress should adhere to the Chamber's core principles of competitiveness, technology, reduction of barriers, maximum flexibility, international, economy-wide solutions, and

The Honorable John D. Dingell
The Honorable Rick Boucher
March 19, 2007
Page 7 of 7

conservation and efficiency. The domestic economy must not be harmed now or over time, and the engagement of the international community, particularly developing nations, is critical. Please feel free to contact me if you have any questions concerning the Chamber's response to your query. Thank you again for your interest in the Chamber's views on this very important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Bruce Josten", written in a cursive style.

R. Bruce Josten